

Energy Situation Analysis Report

Last Updated: September 5, 2002

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Latest Oil Market Developments

Oil prices rose on Wednesday (9/4/02) as President Bush met with congressional leaders to discuss Iraq. October crude oil futures on the New York Mercantile Exchange (NYMEX) rose 48 cents Wednesday to settle at \$28.27 per barrel. In early trading on Thursday (9/5/02), oil prices have risen on data showing a substantial decline in U.S. crude oil stocks. [more...](#)

Latest U.S. Weekly EIA Petroleum Information

Retail diesel fuel prices increased for the third week in a row, rising by 1.8 cents per gallon to a national average of 138.8 cents per gallon as of September 2. Meanwhile, the U.S. average retail price for regular gasoline declined for the fourth time in five weeks on September 2, falling 0.9 cent per gallon to end at 139.4 cents per gallon. [more...](#)

World Oil Market Highlights

According to third quarter 2002 estimates, the world holds about 5.6 million barrels per day of excess oil production capacity that could be brought online within 30 days, over 90% of which lies in OPEC countries. This figure does not include Iraqi spare capacity. [more...](#)

Latest U.S. Weekly Natural Gas Information

Prices for NYMEX natural gas futures for October delivery at the Henry Hub increased slightly Wednesday, climbing just over 6 cents per MMBtu from Tuesday's close to settle at \$3.193 per MMBtu. Similarly, prices of the futures contracts for delivery during the heating season months all climbed between 5 and 6 cents per MMBtu on Wednesday. [more...](#)

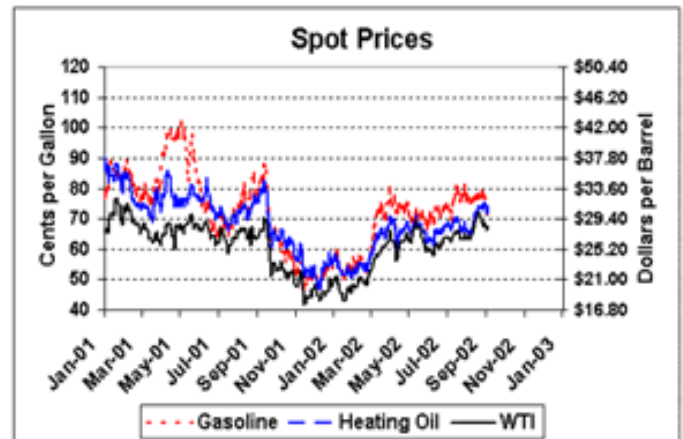
Latest U.S. Coal Information

For the week ending August 23, the week-to-week coal prices tracked by EIA were virtually unchanged. Average

Energy Prices*

Petroleum Futures		9/4/02	9/3/02	Change
WTI (\$/Bbl)		28.27	27.79	+0.48
Gasoline (c/gallon)		76.22	74.52	+1.70
Heating Oil (c/gallon)		75.03	72.81	+2.22
Natural Gas (\$/MMBtu)				
Henry Hub		3.12	3.10	+0.02
California		2.93	2.93	0.00
New York City		3.44	3.41	+0.03
Electricity (\$/Megawatthour)				
COB		27.25	27.75	-0.50
PJM West		34.61	36.98	-2.37
NEPOOL		35.13	36.28	-1.15
Average		34.08	35.57	-1.49

[*Definitions](#)

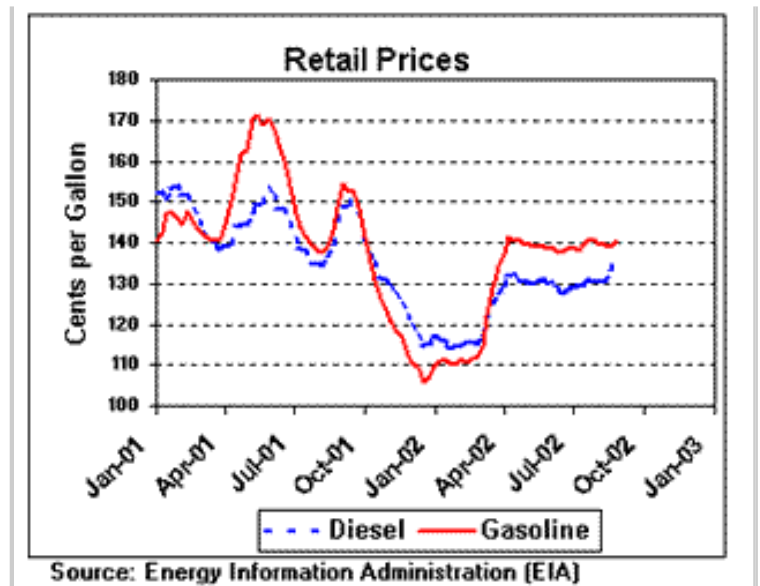


Source: Closing quote as reported by Reuters News Service

Central Appalachian coal prices were down an estimated 25 cents, Uinta Basin prices rose an estimated 25 cents, and the rest did not move. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$30.25 per short ton for Central Appalachian and \$28.00 per short ton for Northern Appalachian coal are higher by 36% and 31% respectively. [more...](#)

Latest U.S. Electricity Information

Electricity prices in the Northeast have been falling the past two days as cooler weather has set in across the region reducing the demand for electricity. The largest percentage drop occurred in New England where prices fell 26% to \$35.13 per megawatthour on September 4. Over the past seven days, the average price at all trading centers has ranged between \$36.90 and \$31.47 per megawatthour. [more...](#)



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Latest Oil Market Developments

(updated September 5, 2002)

Oil prices rose on Wednesday (9/4/02) as President Bush met with congressional leaders to discuss Iraq. October crude oil futures on the New York Mercantile Exchange (NYMEX) rose 48 cents Wednesday to settle at \$28.27 per barrel. In early trading on Thursday (9/5/02), oil prices have risen on data showing a substantial decline in U.S. crude oil stocks. Weekly data released by EIA Thursday morning showed a decline in U.S. commercial crude oil inventories of 4.6 million barrels, to 298.5 million barrels, the lowest level since the week ending March 16, 2001.

Conflicting signals from OPEC ahead of the cartel's September 19 meeting in Osaka, Japan are causing some confusion, with several countries calling for no hike in OPEC output quotas and others, particularly Saudi Arabia, appearing to be more open to an increase. In general, oil prices have been driven higher since the spring by several factors, including: 1) significant cuts in OPEC production quotas during 2001, including an OPEC agreement with non-OPEC at the end of the year (note: increased OPEC "overproduction" above quota levels has mitigated this increasingly in recent months); 2) tensions in the Middle East, particularly speculation over the possibility of U.S. military action against Iraq; and 3) a steep slide in US crude oil inventories.

Topics affecting **world oil markets** include:

- OPEC Secretary General Alvaro Silva said Wednesday at the World Petroleum Congress in Rio de Janeiro that "the market is sufficiently supplied with oil" and "stocks are comfortable," but stopped short of predicting what action the cartel would take at its upcoming ministerial meeting September 19.
- Robert Priddle, executive director of the International Energy Agency (IEA) said in comments at the World Petroleum Congress that oil market fundamentals point to the need for an increase in OPEC oil output. He also said the IEA stands ready, in the event of a "clear loss of supply" due to possible future military action in Iraq, to release emergency stockpiles of crude oil.
- Mexico's energy minister Ernesto Martens said Wednesday that the Mexican government "does not yet have a position" on whether it will continue production cuts it has undertaken since January 2002 in cooperation with OPEC.
- United Nations officials said Wednesday that Iraqi oil exports under the "Oil-for-Food" program fell to 700,000 barrels per day for the week ending August 30. There have been no crude oil loadings at the southern port of Mina al-Bakr since August 21, and all shipments loaded the week ending August 30 were from the port of Ceyhan in Turkey.
- As of September 5, 2002, the US Strategic Petroleum Reserve (SPR) contained 582.0 million

barrels of oil. The SPR has a maximum drawdown capability of 4.3 million barrels per day for 90 days, with oil beginning to arrive in the marketplace 15 days after a presidential decision to initiate a drawdown. The SPR drawdown rate declines to 3.1 million barrels per day from days 91-120, to 2.1 million barrels per day for days 121-150, and to 1.2 million barrels per day for days 151-180. The White House has indicated (8/19/02) that it has no plans to tap the SPR, but has warned of possible "risks ahead in the [oil] markets."

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Latest U.S. Weekly EIA Petroleum Information

(updated September 5, 2002)

Refinery Inputs and Production

U.S. crude oil refinery inputs averaged over 15.3 million barrels per day during the week ending August 30, up slightly from the previous week. Increases in PADD I (East Coast), PADD II (Midwest) and PADD V (West Coast) more than compensated for declines in PADD III (Gulf Coast) and PADD IV (Rocky Mountains). Over the last four weeks, crude oil refinery inputs have averaged 15.3 million barrels per day, or slightly more than was averaged last year at this time. Despite the increase in refinery inputs, motor gasoline refinery production dropped last week, while distillate fuel and jet fuel refinery production increased slightly.

Petroleum Imports

U.S. crude oil imports remained about the same compared to the previous week, averaging 9.2 million barrels per day. Crude oil imports into the East Coast averaged 1.8 million barrels per day last week, the highest weekly average since the week ending May 17, 2002. During the most recent four weeks, crude oil imports have averaged nearly 9.3 million barrels per day, or about 100,000 barrels per day less than during the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) averaged nearly 800,000 barrels per day last week, down from each of the previous two weeks.

Petroleum Inventories

Even with small changes in crude oil refinery inputs and crude oil imports, reported U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 4.6 million barrels last week. At 298.5 million barrels, they are at the lowest level since the week ending March 16, 2001. Due to the nature of weekly data, occasionally there are weeks in which there is a big movement in reported inventories either up or down that are not easily explained by looking at other components of supply or demand, so this is not too unusual. Motor gasoline inventories last week dropped by 1.5 million barrels, while distillate fuel inventories continued a counter-seasonal trend, falling by 2.0 million barrels.

Petroleum Demand

Total product supplied over the last four-week period averaged 20.2 million barrels per day or about 0.3 percent more than the level last year. Motor gasoline demand has averaged 2.0 percent above last year's level over the last four weeks, while distillate fuel demand has averaged 2.8 percent below last year's level. Kerosene-jet fuel demand over the last four weeks was 6.7 percent below year-ago levels.

Spot Prices

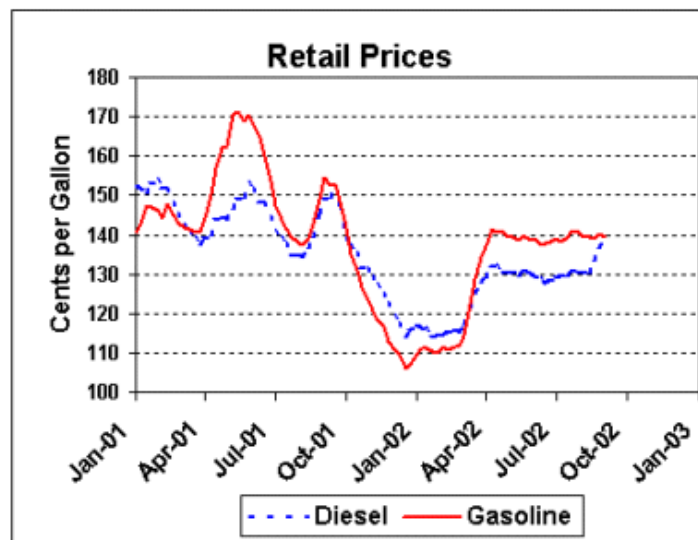
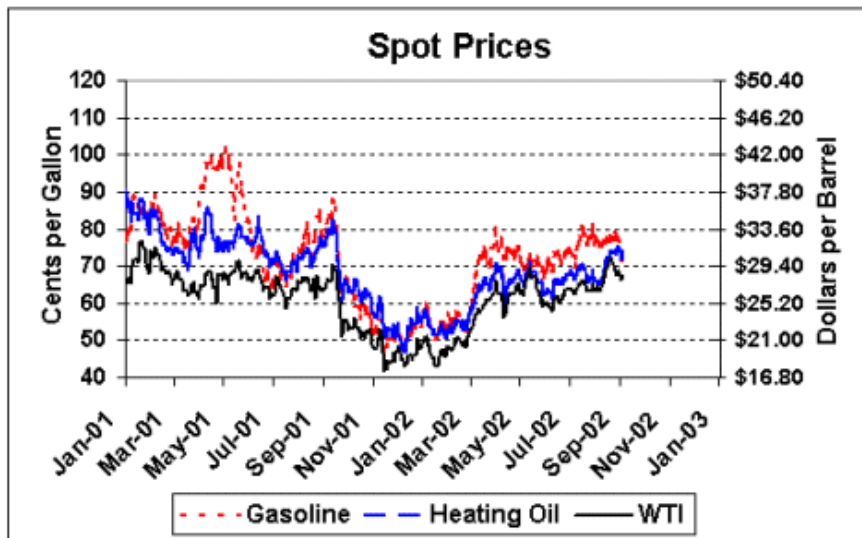
The average world crude oil price on August 30, 2002 was \$26.13 per barrel, down \$0.10 from the previous week but \$1.06 more than last year. WTI was \$28.97 per barrel on August 30, 2002, \$1.02 less than last week but \$2.32 higher than last year. The spot price for conventional gasoline in the New York Harbor was 77.32 cents per gallon, up 0.47 cent from last week but 1.33 cents lower than a year ago. The spot price for low sulfur diesel fuel in the New York Harbor was 76.75 cents per gallon, 0.65 cent above last week but 1.68 cents less than last year.

Retail Gasoline and Diesel Fuel Prices

The U.S. average retail price for regular gasoline declined for the fourth time in five weeks on September 2, falling 0.9 cent per gallon to end at 139.4 cents per gallon. This price is 15.1 cents per gallon lower than last year, marking the third week in a row that 2002 prices were lower than 2001 prices. Retail diesel fuel prices increased for the third week in a row, rising by 1.8 cents per gallon to a national average of 138.8 cents per gallon as of September 2. Prices were up throughout the country, with the largest price increase occurring in the Rocky Mountain region, where prices rose by 3.0 cents to end at 141.9 cents per gallon. The West Coast saw a 2.6 cents per gallon increase, bringing prices up to 150.6 cents per gallon; prices in California rose by 3.0 cents per gallon to end at 158.6 cents per gallon. U.S. diesel fuel prices have shot up 8.5 cents since July 29, with prices in California increasing by 16.3 cents over that same time period.

U.S. Petroleum Prices

(updated September 5, 2002)



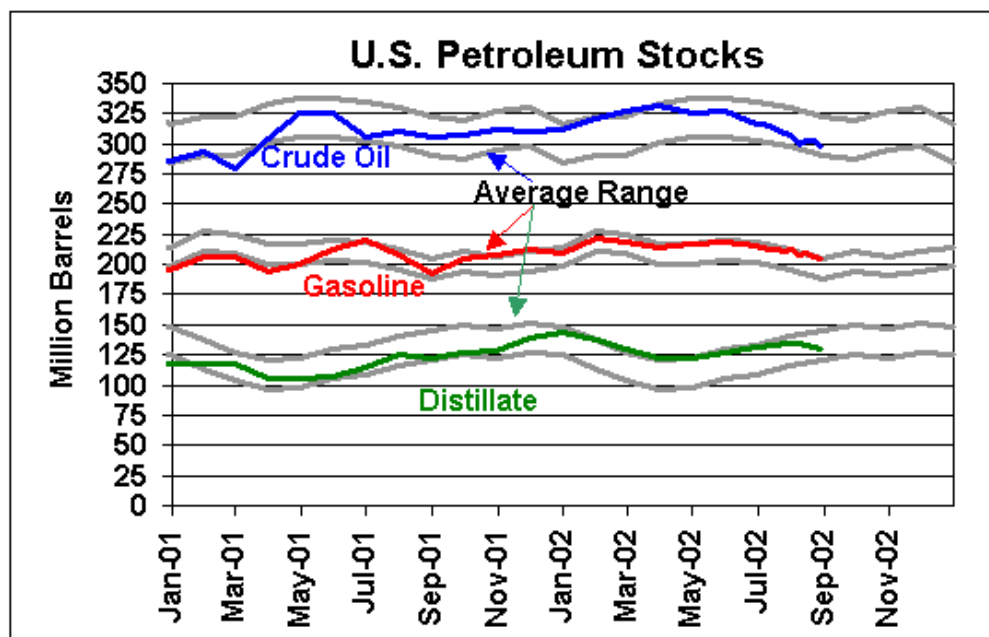
Crude Oil and Oil Products Price Table

Date	WTI Crude Oil		Gasoline		Heating Oil		Kerojet	Propane		EIA Weekly Retail	
	Spot	Futures	Spot	Futures	Spot	Futures	Spot	Spot	Spot	US Average	
	Cushing		NYH		NYH		NYH	Mt. Belvieu	Conway	Gasoline	Diesel
	\$/bbl	\$/bbl	cents per gallon		cents per gallon		c/gal	cents per gallon		cents per gallon	
7/18/2002	\$27.50	\$27.57	78.25	83.35	69.43	70.18	72.81	37.44	34.88	141.0	131.1
7/19/2002	\$27.83	\$27.83	78.85	83.86	69.45	70.14	73.10	37.13	35.25		
7/22/2002	\$26.61	\$26.60	76.13	81.14	66.60	67.11	70.38	37.13	35.13		
7/23/2002	\$26.61	\$26.31	75.38	79.52	65.40	65.85	69.18	37.07	35.13	140.7	130.3
7/24/2002	\$26.78	\$26.87	77.48	82.33	67.15	67.60	71.20	37.38	35.00		
7/25/2002	\$26.67	\$26.77	77.15	82.24	66.55	67.41	71.40	37.38	35.00		
7/26/2002	\$26.55	\$26.54	77.34	82.21	66.13	66.75	70.88	37.44	35.57	139.5	130.4
7/29/2002	\$26.54	\$26.55	78.66	83.16	66.30	66.60	71.40	37.57	36.07		
7/30/2002	\$27.43	\$27.36	81.13	85.61	68.75	68.87	73.90	37.57	36.07		
7/31/2002	\$27.02	\$27.02	78.47	83.03	67.04	67.64	72.30	38.63	38.00	139.3	130.3
8/1/2002	\$26.51	\$26.47	75.67	76.22	65.70	67.20	70.50	38.94	38.82		
8/2/2002	\$26.87	\$26.84	77.50	77.48	66.10	67.66	70.90	38.32	38.07		
8/5/2002	\$26.55	\$26.58	76.30	76.82	64.40	66.64	69.65	38.29	37.94	139.2	133.3
8/6/2002	\$27.18	\$27.17	76.65	77.47	65.70	67.78	70.95	38.63	38.07		
8/7/2002	\$26.58	\$26.50	75.00	75.46	65.00	66.61	70.45	38.50	38.25		
8/8/2002	\$26.67	\$26.67	74.95	75.54	65.83	67.24	71.38	38.75	39.19	140.3	137.0
8/9/2002	\$26.87	\$26.86	75.43	75.50	65.43	67.18	71.18	39.19	39.19		
8/12/2002	\$27.84	\$27.86	76.28	77.75	67.75	69.46	73.32	40.25	40.19		
8/13/2002	\$28.35	\$27.90	76.98	77.38	68.80	69.42	74.38	40.13	40.25	139.4	138.8
8/14/2002	\$28.19	\$28.15	75.88	77.64	68.73	70.14	74.48	40.88	41.63		
8/15/2002	\$28.99	\$29.06	77.82	79.76	71.48	72.78	76.48	41.50	41.75		
8/16/2002	\$29.24	\$29.33	76.50	79.19	72.00	73.45	77.00	41.50	41.88	140.3	137.0
8/19/2002	\$29.86	\$29.84	76.50	79.09	72.05	73.39	76.90	42.13	42.88		
8/20/2002	\$30.12	\$30.11	77.70	80.03	72.20	73.80	76.95	42.13	42.88		
8/21/2002	\$30.37	\$29.24	78.19	80.66	74.00	75.42	79.05	42.88	43.63	140.3	137.0
8/22/2002	\$30.11	\$28.84	77.08	79.66	73.91	74.82	78.12	43.07	43.82		
8/23/2002	\$29.99	\$28.63	76.85	79.52	73.40	73.90	77.88	43.38	43.32		
8/26/2002	\$29.23	\$29.28	79.05	82.11	73.55	75.11	78.13	44.75	43.88	139.4	138.8
8/27/2002	\$28.84	\$28.83	78.85	81.80	73.88	75.01	78.25	44.75	43.88		
8/28/2002	\$28.31	\$28.34	76.68	80.18	73.57	74.45	77.73	44.88	43.25		
8/29/2002	\$28.83	\$28.92	77.87	81.32	74.20	75.39	78.43	45.00	43.25	139.4	138.8
8/30/2002	\$28.97	\$28.98	77.32	81.42	74.93	74.82	79.03	45.19	43.13		
9/2/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA		
9/3/2002	\$27.76	\$27.79	71.18	74.52	71.55	72.81	75.68	44.13	42.38	139.4	138.8
9/4/2002	\$28.28	\$28.27	73.35	76.22	73.78	75.03	78.15	45.01	42.88		

Source: Spot and futures closing quotes as reported by Reuters News Service, retail prices reported by EIA

U.S. Petroleum Supply

(Thousand Barrels per Day)	Four Weeks Ending		vs. Year Ago	
	8/30/2002	8/30/2001	Diff.	% Diff.
Refinery Activity				
Crude Oil Input	15,342	15,259	83	0.5%
Operable Capacity	16,800	16,662	138	0.8%
Operable Capacity Utilization (%)	92.3%	93.3%	-1.0%	
Production				
Motor Gasoline	8,561	8,277	284	3.4%
Jet Fuel	1,532	1,597	-65	-4.1%
Distillate Fuel Oil	3,498	3,654	-156	-4.3%
Imports				
Crude Oil (incl. SPR)	9,256	9,383	-127	-1.4%
Motor Gasoline	842	729	113	15.5%
Jet Fuel	95	123	-28	-22.8%
Distillate Fuel Oil	183	212	-29	-13.7%
Total	11,423	11,622	-199	-1.7%
Exports				
Crude Oil	30	28	2	7.1%
Products	943	1,020	-77	-7.5%
Total	972	1,048	-76	-7.3%
Products Supplied				
Motor Gasoline	9,129	8,953	176	2.0%
Jet Fuel	1,606	1,717	-111	-6.5%
Distillate Fuel Oil	3,721	3,829	-108	-2.8%
Total	20,220	20,153	67	0.3%
Stocks (Million Barrels)				
	8/30/2002	8/30/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	298.5	308.3	-9.8	-3.2%
Motor Gasoline	205.3	194.4	10.9	5.6%
Jet Fuel	38.9	41.7	-2.8	-6.7%
Distillate Fuel Oil	129.6	122.2	7.4	6.1%
Total (excl. SPR)	1,007.2	1,005.8	1.4	0.1%



Source: Energy Information Administration, Weekly Petroleum Status Report, Petroleum Supply Monthly.

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World Oil Market Highlights

(updated August 20, 2002)

According to third quarter 2002 estimates, the world holds about 5.6 million barrels per day of excess oil production capacity that could be brought online within 30 days, over 90% of which lies in OPEC countries. This figure does not include Iraqi spare capacity.

Major Sources of U.S. Petroleum Imports, Jan.-May 2002*			
(all volumes in million barrels per day)			
	Total Oil Imports	Crude Oil Imports	Petroleum Product Imports
Canada	1.91	1.45	0.46
Saudi Arabia	1.52	1.50	0.02
Mexico	1.48	1.45	0.03
Venezuela	1.33	1.14	0.19
Iraq	0.70	0.70	0.00
Nigeria	0.54	0.51	0.03
United Kingdom	0.39	0.31	0.08
Norway	0.37	0.33	0.04
Algeria	0.32	0.04	0.28
Angola	0.32	0.31	0.01
Total Imports	11.15	8.86	2.29

* Table includes all countries from which the U.S. imported more than 300,000 barrels per day in Jan.-May 2002.

Top World Oil Net Exporters, Jan.-May 2002*		
	Country	Net Exports (million barrels per day)
1)	Saudi Arabia	6.64
2)	Russia	4.81
3)	Norway	3.18
4)	Iran	2.43
5)	Venezuela	2.34

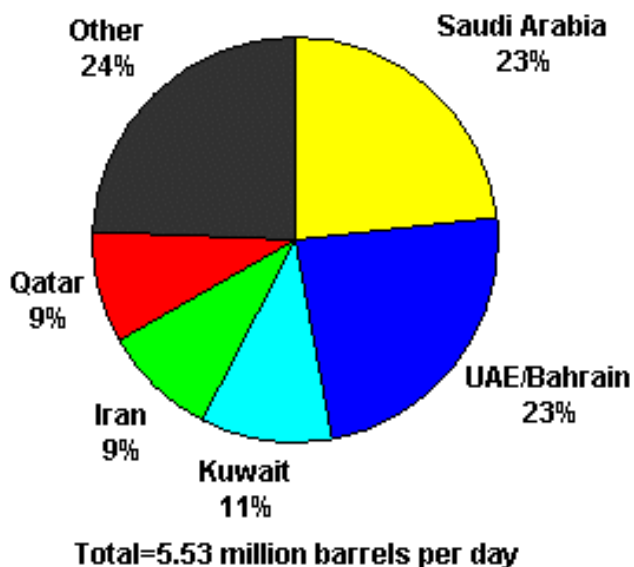
6)	United Arab Emirates	1.92
7)	Nigeria	1.86
8)	Iraq	1.65
9)	Kuwait	1.60
10)	Mexico	1.67
11)	Algeria	1.21
12)	Libya	1.17

**Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-May 2002.*

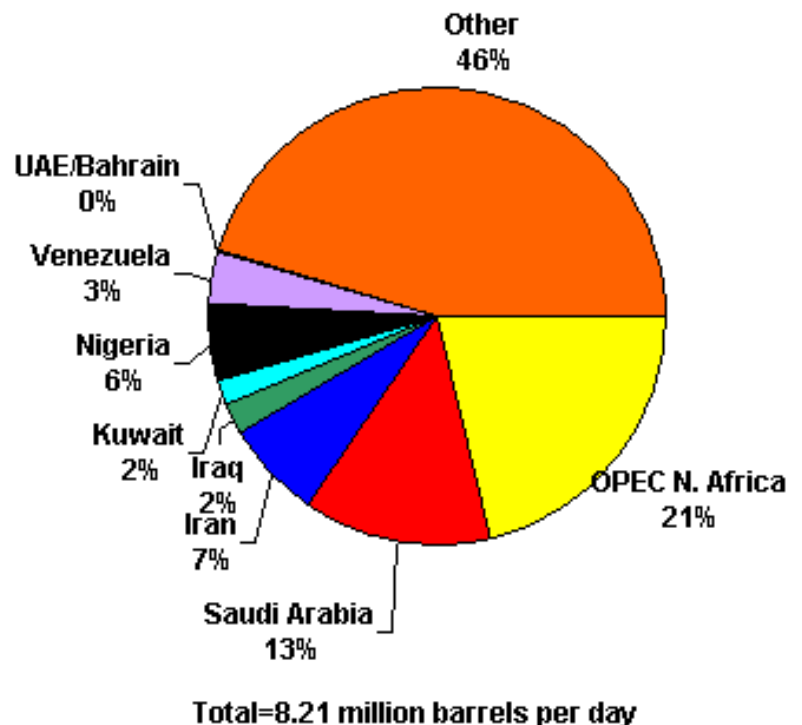
During the first five months of 2002, about half of U.S. crude oil imports came from the Western Hemisphere (17% from South America, 16% from Mexico, 15% from Canada, 2% from the Caribbean), while 27% came from the Persian Gulf region (17% from Saudi Arabia, 8% from Iraq, 2% from Kuwait).

In general, OECD Europe depends far more heavily on the Persian Gulf and North Africa for oil imports than the United States. During the first quarter of 2002, about 25% of OECD Europe's net oil imports came from the Persian Gulf (mainly Saudi Arabia, Iran, Iraq, and Kuwait), around 28% from Africa (mainly Libya, Algeria, and Nigeria), and much of the remainder from Russia. Japan receives over three-quarters of its oil supplies from the Persian Gulf (mainly the UAE, Saudi Arabia, Kuwait, Iran, and Qatar) with the remainder coming from Indonesia, China, and other sources.

Japanese Net Oil Imports by Country, 1Q 2002



OECD European Net Oil Imports by Country, 1Q 2002



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Latest U.S. Weekly Natural Gas Information

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[Industry/Market Developments](#)

Standard & Poor's Details Liquidity Issues Before Energy Merchants: Liquidity assessments have become the most crucial component of analyzing the creditworthiness of many energy merchant companies, according to Standard & Poor's. In a recent update on the credit difficulties among marketers, Standard & Poor's said that several ongoing trends have heightened liquidity concerns, noting the survival of several companies will depend on their ability to maintain adequate levels of liquidity over the next several months. In 2002, funds from operations for energy merchants have declined dramatically, owing to both declining commodity prices (particularly power prices) and decreased trading following the Enron bankruptcy. At the same time, several companies are selling assets to meet near-term debt maturities and reduce their debts. According to Standard & Poor's, while the assets provide immediate cash relief, the benefits of the sales are not yet known because companies may be selling assets that generated stable cash flow. Lastly, energy merchants are facing tougher access to capital, and onerous covenants in new bank debt could further reduce financial flexibility. Credit analysts predict that credit quality in the utilities and competitive energy sector will remain under pressure into 2003.

[Storage](#)

Working gas in storage was 2,781 billion cubic feet (Bcf) for the week ended Friday, August 30, 2002, according to the EIA Weekly Natural Gas Storage Report. This is 12.5% above the 5-year average for the report week, and almost 8% above the level last year for the same week. Moreover, this is roughly 53 Bcf or nearly 2% above the level entering the heating season at the end of October 2000. The implied net injections were 65 Bcf, which is roughly 5% above the 5-year average of 62 Bcf for the report week.

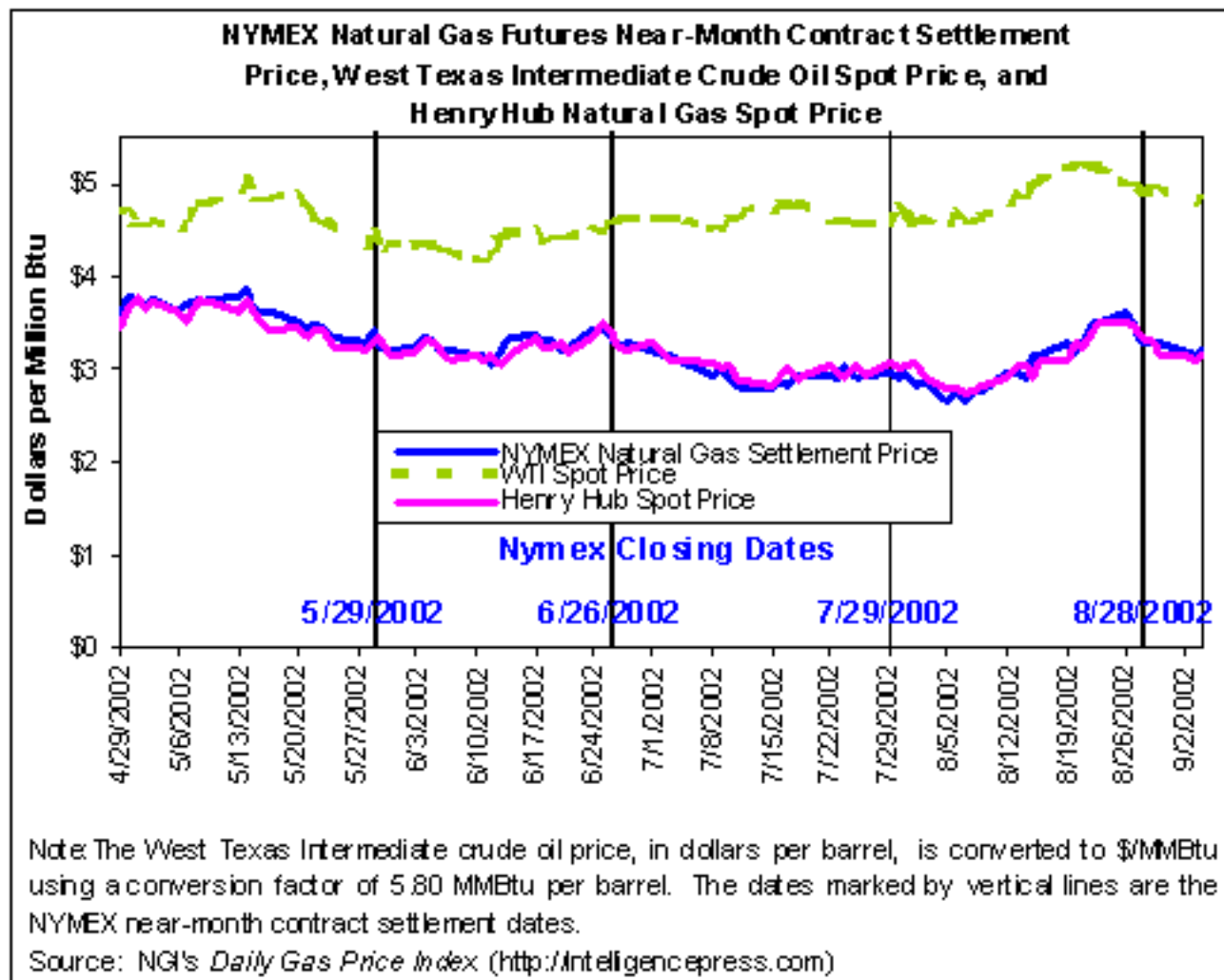
All Volumes in Bcf	Current Stocks 8/30/2002	Estimated Prior 5-year (1997-2001) Average	Percent Difference from 5-Year Average	Implied Net Change from Last Week	One- Week Prior Stocks 8/23/2002
East Region	1,590	1,496	6.3%	53	1,537
West Region	381	318	19.8%	5	376
Producing Region	810	656	23.5%	7	803
Total Lower 48	2,781	2,471	12.5%	65	2,716

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database.

Prices:

Spot prices have climbed since Tuesday, September 3, as Hurricane Edouard approached the Florida coast about 25 miles south of St. Augustine. Concerns that Edouard might traverse the state and retain enough strength to threaten gas production in the Gulf of Mexico likely contributed to the gains in prices this week. Another contributing factor probably included the 48 cents per barrel increase in the price of crude oil on Wednesday, September 4.

At the NYMEX, the price of the futures contract for October delivery at the Henry Hub increased slightly, climbing just over 6 cents per MMBtu since Tuesday, September 3, to settle at \$3.193 per MMBtu on Wednesday, September 4. Similarly, prices of the futures contracts for delivery during the heating season months all climbed between 5 and 6 cents per MMBtu on Wednesday, September 4.



<i>Trade Date (All prices in \$ per MMBtu)</i>	California Composite Average Price*	Henry Hub	New York City	Chicago	NYMEX futures contract-October delivery	NYMEX futures contract-November delivery
8/5/2002	2.57	2.81	3.25	2.76	2.720	3.065
8/6/2002	2.54	2.79	3.18	2.73	2.755	3.104
8/7/2002	2.48	2.73	3.04	2.65	2.704	3.066
8/8/2002	2.46	2.75	2.99	2.66	2.784	3.134
8/9/2002	2.54	2.83	3.41	2.73	2.804	3.146
8/12/2002	2.70	2.91	4.10	2.82	3.001	3.316
8/13/2002	2.76	3.03	4.90	2.95	3.018	3.328
8/14/2002	2.74	3.03	4.38	2.96	2.955	3.267
8/15/2002	2.65	2.92	4.07	2.86	3.172	3.457
8/16/2002	2.76	3.10	3.64	3.02	3.208	3.488
8/19/2002	2.77	3.10	3.49	3.00	3.327	3.602
8/20/2002	2.90	3.26	3.66	3.16	3.226	3.498
8/21/2002	2.84	3.22	3.67	3.11	3.339	3.601
8/22/2002	2.93	3.38	3.76	3.23	3.591	3.828
8/23/2002	3.01	3.49	3.78	3.35	3.543	3.785
8/26/2002	3.15	3.51	3.74	3.42	3.676	3.919
8/27/2002	3.11	3.48	3.67	3.39	3.531	3.784
8/28/2002	3.05	3.33	3.49	3.25	3.403	3.673
8/29/2002	3.01	3.26	3.43	3.22	3.250	3.555
8/30/2002	2.82	3.12	3.37	3.13	3.296	3.626
9/3/2002	2.93	3.10	3.41	3.12	3.132	3.487
9/4/2002	2.93	3.12	3.44	3.15	3.193	3.543

* Average of NGI's reported average prices for: Malin, PG&E citygate, and Southern California Border Average.

Source: NGI's Daily Gas Price Index (<http://intelligencepress.com>)

File last modified: September 5, 2002

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Definitions

Petroleum

WTI – West Texas Intermediate (for the purposes of this table, prices provided are near month futures price) Cushing OK.

Bbl – Barrel (42 gallons).

C's – cents.

Natural Gas

Henry Hub – A pipeline hub on the Louisiana Gulf coast. It is the delivery point for the natural gas futures contract on the New York Mercantile Exchange (NYMEX).

Electricity

COB – average price of electricity traded at the California-Oregon and Nevada-Oregon border.

Palo Verde - average price of electricity traded at Palo Verde and West Wing Arizona.

Average - average price of electricity traded at all locations.

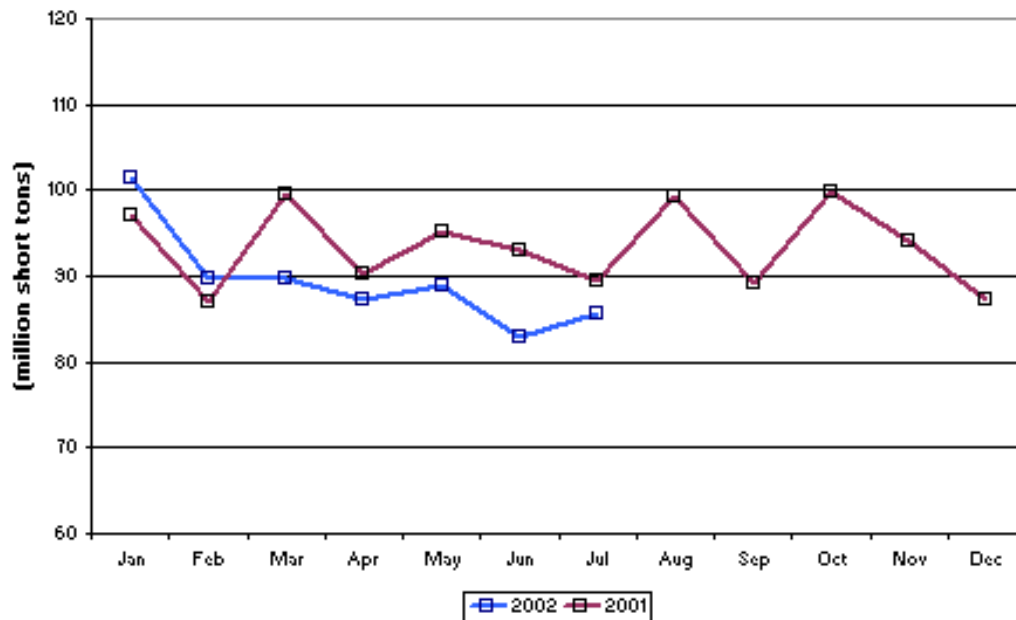
Latest U.S. Coal Information

(updated August 29, 2002)

Coal Production

For the week ending August 24, rail car loadings of coal were 4.5% lower while national [coal production](#) was 2.0% lower, compared to year-ago levels. Year-to-date, western U.S. coal production is 1.9% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 7.0% below last year's level. The estimated production for the first seven months of 2002 was 620.1 million short tons (mst), 3.9% lower than the 651.3 mst in the first seven months of 2001.

U.S. Monthly Coal Production



Lower production at this time results from large coal stockpiles at mines and at consuming facilities due to slowed economic activity and an extended spring period of low seasonal demand at many electric power plants. EIA estimates that coal stockpiled in the electric power sector at the end of March was 35.1% higher than in March 2001. In the first and second quarters of 2002, coal production exceeded coal use and consequently stockpiles built up much above planned levels. Cumulative weekly coal production volumes are down more (in absolute terms) than are cumulative rail car loadings. This reflects a rundown occurring now in producer and distributor stockpiles. The stock rundown (and its dampening impact on production) will continue until coal stockpiles attain normal levels.

It appears that there was about a 30 million ton overage in the supply chain following the first quarter of 2002, so it was expected to take several months of curtailed production to reduce the excess producer and distributor stocks. With warmer-than-normal temperatures in most of the country during the July and August, inventories at electricity generators have started down. Would-be buyers, however, are finding coal producers holding firm on price demands. While some eastern mines are back in production, the major suppliers are still keeping a number of large mines idle awaiting better prices for contract coal. Supplies of eastern compliance coal are reportedly tight as the unusually

protracted pricing standoff continues.

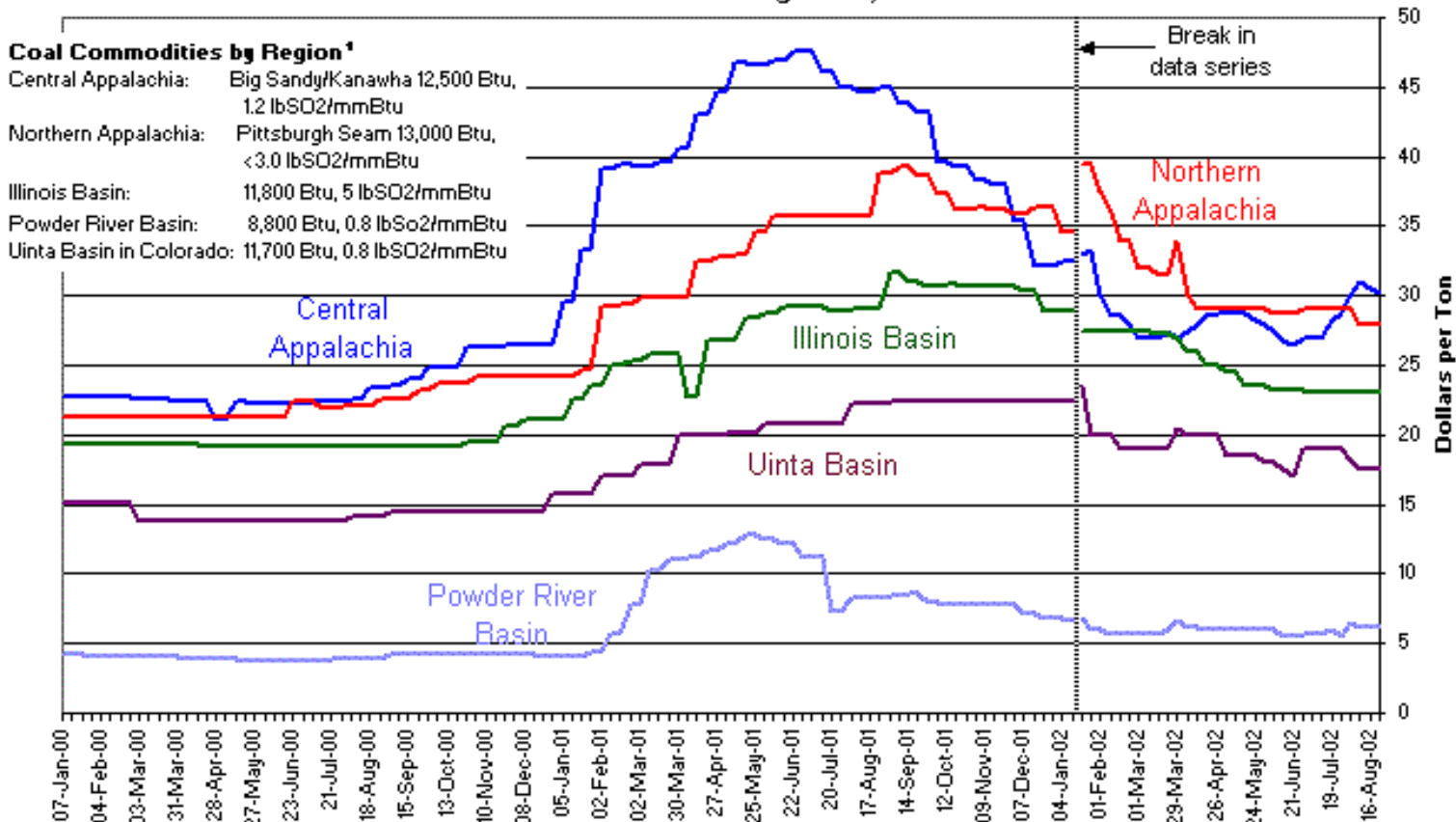
As for longer-term supplies, in Fayette County, Illinois, a newly formed company named Clean Coal Power Resources, Inc. plans to open what would be the largest underground coal mine in the United States within the next 2 years. Company spokesman, Ken Hoskins, reports that the company is securing permits and "bringing together hundreds of pieces" of the project at this time (Herald & Review (Decatur, IL), August 21). The project is expected to use much of the coal to power at least one coal gasification plant, to be built nearby (Platts Coal Outlook, September 2). The Fayette County location was chosen because of the huge block of coal resources available, estimated at 1.6 billion short tons. The mine is projected to create as many as 1,700 jobs over the next 10 years. By using Clean Coal Technology, the project will qualify for "tens of millions of dollars" in tax savings and incentives authorized under the Illinois Coal Revival Initiative legislation passed in 2001, according to Michael Murphy of the Illinois Department of Commerce and Community Affairs, while the county will earn at least \$3 million per year in royalties.

Coal Prices

For the week ending August 23, the week-to-week coal prices tracked by EIA were virtually unchanged (graph below). Average Central Appalachian coal prices were down an estimated 25 cents, Uinta Basin prices rose an estimated 25 cents, and the rest did not move. Mixed coal prices in recent weeks, but with no overall trend, mirror the differing opinions as to whether prices will continue to decline, and reflect hesitancy among coal buyers. Relatively few buyers are in the market, as most electric power generators have enough coal on hand for anticipated remaining summer consumption and some expect to have larger than average stockpiles even at the end of a hot summer because of lower electricity demand during 2002.

Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$17.00 and \$11.00 per short ton, respectively. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$30.25 per short ton for Central Appalachian and \$28.00 per short ton for Northern Appalachian coal are higher by 36% and 31% respectively. Other prices are also running higher than the summer 2000 base: by 29% for the Uinta Basin, 20% for the Illinois Basin, and 67% for the Powder River Basin. Significantly, since the week ended August 2, the average spot price for largely compliance Central Appalachian coal (see graph) has continued to stay above that of Northern Appalachian Pittsburgh seam coal, as had long been the norm prior to November 2001.

Average Weekly Coal Commodity Spot Prices Week Ended August 23, 2002



¹Prior to January 11, 2002, EIA averaged 12-month "forward" spot prices for several coal specifications; after that date, coal prices shown are for a relatively high-Btu coal selected in each region, for delivery in the "prompt" quarter. The "prompt quarter" is the next calendar quarter, with quarters shifting forward after the 15th of the month preceding each quarter's end.

Source: with permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey"

Over-the-counter (OTC) trading volumes on the [NYMEX](#) were low throughout the month of July. The past week saw limited activity, while offered prices remained firm, moving above \$30.00 for near-month contracts. These prices come after 5 months of slow but steady increases and they represent the first prices above \$30.00 since November 2001. Also contributing to an expectation of higher coal prices, NYMEX prices are also above \$30.00 for all 2003 delivery dates.

Coal Mining Legal Issues

Earlier this month the Department of Justice (DOJ) filed its expected brief appealing a May 8 injunction that put on hold permits for new surface mining in West Virginia and other parts of Central Appalachia (see Archives, August 6 and June 27, 2002). The DOJ argues that Judge Charles Haden III "erred" by defining overburden used in valley fills as illegal "waste" under Section 404 of the Clean Water Act. The appeal contends that the "waste" is actually "fill material" and is legal, and that it is not necessary that filled valleys be earmarked for some higher use, as Judge Haden interprets the Section 404 requirements. Briefings in this case will continue for several weeks. A ruling by the appeals court is not expected until early 2003. (Platts Coal Outlook, August 19, 2002).

File last modified: September 3, 2002

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Latest U.S. Electricity Information

(updated September 5, 2002)

Selected Wholesale Electricity Prices: Western U.S. spot electricity prices have remained relatively steady over the past several days with only moderate fluctuations. COB prices ranged between \$24.90 and \$28.00 per megawatthour, while prices at NP-15 and SP-15 ranged between \$30.00 and \$35.05 per megawatthour. Relatively cool weather contributed to stable prices in the region.

Electricity prices in the Mid-continent region have been falling over the past two trading days as cooler weather has reduced the demand for electricity. Cinergy's price has fallen almost \$5.00 per megawatthour from its high of \$35.36 per megawatthour on August 30 to \$30.97 per megawatthour on September 4.

Similarly, prices in the Northeast have also been falling the past two days as cooler weather has set in across the region reducing the demand for electricity. The largest percentage drop occurred in New England where prices fell 26% to \$35.13 per megawatthour on September 4. In New York City, prices fell 19% to \$52.50 per megawatthour on September 4 and at the PJM West, prices fell 14% to \$34.61 per megawatthour.

Over the past seven days, the average price at all trading centers has ranged between \$36.90 and \$31.47 per megawatthour.

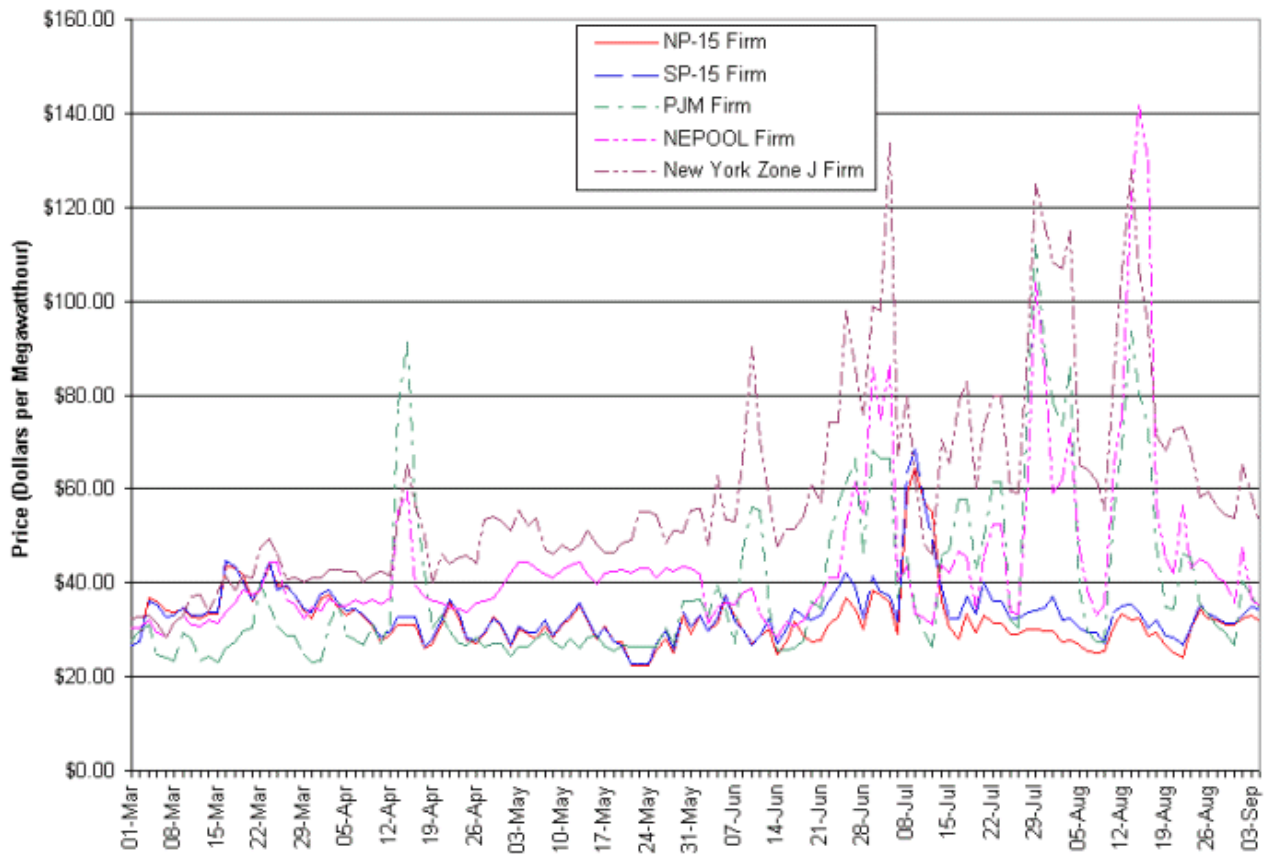
U.S. Regional Electricity Prices at Major Trading Centers (Dollars per megawatthour)

Trading Centers	Date							Price Range		
	8/27/02	8/28/02	8/29/02	8/30/02	9/2/02	9/3/02	9/4/02	Max	Min	Average
COB	25.50	24.90	24.90	28.00	No data available due to the Labor Day Holiday	27.75	27.25	28.00	24.90	26.98
Palo Verde	30.85	29.71	29.71	31.66		34.78	34.21	34.78	29.71	32.59
Mid-Columbia	22.29	23.88	23.88	25.58		25.16	22.91	25.58	22.29	24.38
Mead/Marketplace	34.44	33.38	33.38	35.93		37.14	36.81	37.14	33.38	35.82
4 Corners	30.95	30.00	30.00	31.00		35.05	34.56	35.05	30.00	32.65
NP 15	31.96	31.05	31.05	32.44		33.13	31.84	33.13	31.05	32.12
SP 15	32.38	31.54	31.54	33.09		35.02	34.13	35.02	31.54	33.45
PJM West	30.65	29.37	26.62	40.35		36.98	34.61	40.35	26.62	34.64
NEPOOL	41.19	40.19	35.75	47.50		36.28	35.13	47.50	35.13	38.67
New York Zone J	56.25	54.50	53.75	65.00		58.50	52.50	65.00	52.50	57.44
Cinergy	29.28	29.11	25.59	35.36		31.51	30.97	35.36	25.59	30.86
Average Price	33.25	32.51	31.47	36.90		35.57	34.08	36.90	31.47	34.51

Sources: COB, Palo Verde, Mid-Columbia, Mead/Market Place, Four Corners, NP-15, SP-15, PJM-West, NEPOOL, New York Zone J, and Cinergy trading centers. Used with permission from Bloomberg L.P. (www.bloomberg.com).

COB: Average price of electricity traded at the California-Oregon and Nevada-Oregon Borders.
Palo Verde: Average price of electricity traded at Palo Verde and the West Wing, Arizona.
Mid-Columbia: Average price of electricity traded at Mid-Columbia.
Mead/Market Place: Average price of electricity traded at Mead Market Place, McCullough and Eldorado.
Four Corners: Average price of electricity traded at Four Corners, Shiprock, and San Juan, New Mexico.
NP-15: Average price of electricity traded at NP-15.
SP-15: Average price of electricity traded at SP-15.
PJM-West: Average price of electricity traded at PJM Western hub.
NEPOOL Average price of electricity traded at Nepool.
New York Zone J: Average price of electricity traded at the New York Zone J - New York City.
Cinergy: Average price of electricity traded into the Cinergy control area.

Average Wholesale Electricity Prices in the U.S.



File last modified: September 5, 2002

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